

SB

2001

(FILE 2)

SRES

AMEND'S

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McBlair
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wil
Wagoner

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25-GS0014E.1
Bullock
10/26/07

AMENDMENT #1

OFFERED IN THE SENATE

BY SENATOR WAGONER

TO: CSSB 2001(), Draft Version "E"

1 Page 10, following line 13:

2 Insert new bill sections to read:

3 **** Sec. 13.** AS 43.55.011(e) is amended to read:

4 (e) There is levied on the producer of oil or gas a tax for all oil and gas
5 produced each month from each lease or property in the state, less any oil and gas the
6 ownership or right to which is exempt from taxation or constitutes a landowner's
7 royalty interest. Except as otherwise provided under (j) and (k) of this section, the tax
8 is equal to the greater of 25 [22.5] percent of the production tax value of the taxable
9 oil and gas as calculated under AS 43.55.160, or the minimum tax determined under
10 (f) of this section.

11 *** Sec. 14.** AS 43.55.020(a) is amended to read:

12 (a) For a calendar year, a producer subject to tax under AS 43.55.011(e), (f),
13 (g), or (i), and notwithstanding that a producer may be liable for the tax under
14 AS 43.55.011(f) rather than the tax under AS 43.55.011(e), shall pay the tax as
15 follows:

16 (1) an installment payment of the estimated tax levied by
17 AS 43.55.011(e) or (f), net of any tax credits applied as allowed by law, is due for
18 each month of the calendar year on the last day of the following month; the amount of
19 the installment payment is the sum of the amounts calculated under (2) and (3) of this
20 subsection, but not less than zero;

21 (2) the first of the two amounts used to calculate the installment
22 payment for a month under (1) of this subsection is equal to the remainder obtained by
23 subtracting

1 (A) 1/12 of the tax credits that are allowed by law to be applied
2 against the tax levied by AS 43.55.011(e) for the calendar year; from

3 (B) the total of the monthly production values calculated in the
4 manner provided in AS 43.55.160(a)(2) of all oil and gas taxable under
5 AS 43.55.011(e) and produced by the producer from leases or properties in the
6 state during the month, multiplied by 25 [22.5] percent;

7 (3) the second of the two amounts used to calculate the installment
8 payment for a month under (1) of this subsection is the amount calculated for the
9 month under AS 43.55.011(g);

10 (4) an installment payment of the estimated tax levied by
11 AS 43.55.011(i) for each lease or property is due for each month of the calendar year
12 on the last day of the following month; the amount of the installment payment is the
13 sum of

14 (A) the applicable percentage rate for oil provided under
15 AS 43.55.011(i), multiplied by the gross value at the point of production of the
16 oil taxable under AS 43.55.011(i) and produced from the lease or property
17 during the month; plus

18 (B) the applicable percentage rate for gas provided under
19 AS 43.55.011(i), multiplied times the gross value at the point of production of
20 the gas taxable under AS 43.55.011(i) and produced from the lease or property
21 during the month;

22 (5) any amount of tax levied by AS 43.55.011(e) - (g) and (i), net of
23 any credits applied as allowed by law, that exceeds the total of the amounts due as
24 installment payments of estimated tax is due on March 31 of the year following the
25 calendar year of production."

26
27 **Renumber the following bill sections accordingly.**

28
29 **Page 23, line 3:**

30 **Delete "Sections 21, 22, and 25"**

31 **Insert "Sections 23, 24, and 27"**

1

2 Page 23, line 5:

3 Delete "Sections 19, 20, and 26"

4 Insert "Sections 13, 14, 21, 22, and 28"

5

6 Page 23, line 7:

7 Delete "Sections 14 and 16"

8 Insert "Sections 16 and 18"

9

10 Page 23, line 8:

11 Delete "sec. 14"

12 Insert "sec. 16"

13

14 Page 23, line 9:

15 Delete "sec. 16"

16 Insert "sec. 18"

17

18 Page 24, line 6:

19 Delete "secs. 21, 22, and 25"

20 Insert "secs. 23, 24, and 27"

21

22 Page 24, line 8:

23 Delete "secs. 13, 14, 16, 19, 20, and 26"

24 Insert "secs. 13 - 16, 18, 21, 22, and 28"

25

26 Page 24, lines 25 - 26:

27 Delete "Sections 21, 22, 25, and 29"

28 Insert "Sections 23, 24, 27, and 31"

29

30 Page 24, line 27:

31 Delete "Sections 13, 14, 16, 19, 20, and 26"

1 Insert "Sections 13 - 16, 18, 21, 22, and 28"

2

3 Page 24, line 28:

4 Delete "sec. 32"

5 Insert "sec. 34"

Fairlead

N *8* *#2*

25-GS0014/E
Bullock
10/26/07

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR WAGONER

TO: CSSB 2001(), Draft Version "E"

1 Page 10, following line 13:

2 Insert new bill sections to read:

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4 (e) There is levied on the producer of oil or gas a tax for all oil and gas
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6 ownership or right to which is exempt from taxation or constitutes a landowner's
7 royalty interest. Except as otherwise provided under (j) and (k) of this section, the tax
8 is equal to the greater of ~~22.5~~ 22.5] percent of the production tax value of the taxable
9 oil and gas as calculated under AS 43.55.160, or the minimum tax determined under
10 (f) of this section.

11 *** Sec. 14.** AS 43.55.020(a) is amended to read:

12 (a) For a calendar year, a producer subject to tax under AS 43.55.011(e), (f),
13 (g), or (i), and notwithstanding that a producer may be liable for the tax under
14 AS 43.55.011(f) rather than the tax under AS 43.55.011(e), shall pay the tax as
15 follows:

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17 AS 43.55.011(e) or (f), net of any tax credits applied as allowed by law, is due for
18 each month of the calendar year on the last day of the following month; the amount of
19 the installment payment is the sum of the amounts calculated under (2) and (3) of this
20 subsection, but not less than zero;

21 (2) the first of the two amounts used to calculate the installment
22 payment for a month under (1) of this subsection is equal to the remainder obtained by
23 subtracting

1 (A) 1/12 of the tax credits that are allowed by law to be applied
2 against the tax levied by AS 43.55.011(e) for the calendar year; from

3 (B) the total of the monthly production values calculated in the
4 manner provided in AS 43.55.160(a)(2) of all oil and gas taxable under
5 AS 43.55.011(e) and produced by the producer from leases or properties in the
6 state during the month, multiplied by ~~22.8~~ [22.5] percent;

7 (3) the second of the two amounts used to calculate the installment
8 payment for a month under (1) of this subsection is the amount calculated for the
9 month under AS 43.55.011(g);

10 (4) an installment payment of the estimated tax levied by
11 AS 43.55.011(i) for each lease or property is due for each month of the calendar year
12 on the last day of the following month; the amount of the installment payment is the
13 sum of

14 (A) the applicable percentage rate for oil provided under
15 AS 43.55.011(i), multiplied by the gross value at the point of production of the
16 oil taxable under AS 43.55.011(i) and produced from the lease or property
17 during the month; plus

18 (B) the applicable percentage rate for gas provided under
19 AS 43.55.011(i), multiplied times the gross value at the point of production of
20 the gas taxable under AS 43.55.011(i) and produced from the lease or property
21 during the month;

22 (5) any amount of tax levied by AS 43.55.011(e) - (g) and (i), net of
23 any credits applied as allowed by law, that exceeds the total of the amounts due as
24 installment payments of estimated tax is due on March 31 of the year following the
25 calendar year of production."
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27 Renumber the following bill sections accordingly.

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26 Page 24, lines 25 - 26:

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2

3 Page 24, line 28:

4 Delete "sec. 32"

5 Insert "sec. 34"

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25-GS0014'E.2
Bullock
10/26/07

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR WAGONER

TO: CSSB 2001(), Draft Version "E"

1 Page 10, following line 13:

2 Insert a new bill section to read:

3 **** Sec. 13.** AS 43.55.011(h) is amended to read:

4 (h) For purposes of (g) of this section, the price index for a month is calculated
5 by subtracting 30 [40] from the number that is equal to the quotient of the total
6 monthly production tax value of the taxable oil and gas produced by the producer
7 during that month, as calculated under AS 43.55.160, divided by the total amount of
8 the taxable oil and gas produced by the producer during that month, in BTU equivalent
9 barrels. However, a price index may not be less than zero."

10

11 Renumber the following bill sections accordingly.

12

13 Page 23, line 3:

14 Delete "Sections 21, 22, and 25"

15 Insert "Sections 22, 23, and 26"

16

17 Page 23, line 5:

18 Delete "Sections 19, 20, and 26"

19 Insert "Sections 13, 20, 21, and 27"

20

21 Page 23, line 7:

22 Delete "Sections 14 and 16"

23 Insert "Sections 15 and 17"

1

2 Page 23, line 8:

3 Delete "sec. 14"

4 Insert "sec. 15"

5

6 Page 23, line 9:

7 Delete "sec. 16"

8 Insert "sec. 17"

9

10 Page 24, line 6:

11 Delete "secs. 21, 22, and 25"

12 Insert "secs. 22, 23, and 26"

13

14 Page 24, line 8:

15 Delete "secs. 13, 14, 16, 19, 20, and 26"

16 Insert "secs. 13 - 15, 17, 20, 21, and 27"

17

18 Page 24, lines 25 - 26:

19 Delete "Sections 21, 22, 25, and 29"

20 Insert "Sections 22, 23, 26, and 30"

21

22 Page 24, line 27:

23 Delete "Sections 13, 14, 16, 19, 20, and 26"

24 Insert "Sections 13 - 15, 17, 20, 21, and 27"

25

26 Page 24, line 28:

27 Delete "sec. 32"

28 Insert "sec. 33"

**SENATE TESTIMONY
on SB 2001
October 23, 2007**

Thank you, Chairman Huggins. My name is Tom Walsh. I am a managing partner and co-founder of Petrotechnical Resources of Alaska (PRA), an Alaskan oil and gas consulting company employing about seventy highly experienced and respected oil and gas professionals. Our clients include major oil companies, independent oil and gas companies, Alaskan native corporations, and state and federal agencies, and we provide a wide array of services to our clients.

I have come to speak to you tonight because I am worried about the future of PRA's seventy employees and their families, and about the future of the oil and gas business in Alaska. The Governor's proposed tax increase is a threat to the future of oil and gas development in Alaska. One of the services we offer is commercial analysis of potential oil and gas exploration and development opportunities. Across the board, our clients are finding that the tax structure is currently a key factor in marginalizing their prospect economics, and they expect the situation to worsen with the Governor's proposed legislation. These concerns are being voiced by the entire spectrum of E&P companies, and their concerns are well-founded.

These companies are doing their homework, looking at detailed project plans and economics for significant investment in oil and gas projects, and what they are finding is that their projects don't work under the ever-increasing burden of rapidly escalating development costs and tax increases. We have recently lost two significant clients who have left the State, discouraged by the business climate and disappointed by project results. This trend will continue, and will accelerate if we continue to be driven by greed and paranoia, rather than by rational management of our resources. Whether it is "tax and spend", or "tax and save", it is still taxation with no clear strategy or purpose, and it is driving our declining industry to an accelerated economic limit. I implore you to take the time to develop a long range fiscal plan for the state to determine what services state government should provide to Alaskans, and how much these services will cost, before changing the tax structure once again with no clear vision or purpose.

PRA produced a report several years ago regarding the impact of a major gas sale on the oil production from the North Slope, and the study clearly pointed out that the declining liquid hydrocarbon production would likely become sub-

economic before a gas pipeline could be built. This is a disaster scenario for the State of Alaska, and for the oil and gas industry in Alaska. Obviously, if the revenue from oil production is curtailed prior to revenue from gas sales commences, we are all going to suffer greatly. This is where we are headed, and we should be trying to compete for more interest in our resources, rather than for a greater share of the shrinking pie.

Thank you for your time

**SENATE TESTIMONY
on SB 2001
October 23, 2007**

Thank you, Chairman Huggins. My name is Joe Mathis. My wife and I are the owner and operators of Montana Creek Campground located at mile 95.5 of Parks Highway. We own a 14 acre site with store and 66 sites. We have 7 employees all are Alaskans and employed from the local area providing jobs in an area of high unemployment. We also manage and operate for the state parks one of their campgrounds located nearby.

For me as a small business owner, I need to have certainty in my tax obligations for payroll, property, and sales taxes.

As a small business owner, we have struggled with the uncertainties of risk and disasters. Last year, we had floods that have done serious damage to our business but we were able to survive. We have faced high cost of fuel and seen huge declines in border crossing of RVs and travelers to Alaska coming up the Alcan Highway. These risks that we take in our small business are nothing compared to the risks that you are contemplating. Risk management should be part of your due diligence in this process. Can Alaska really afford to take the risk of discouraging future investment when 50 percent of our production ten years from now will come from 'new oil' generated by future investment?

If you are risking the long term health of our state's future without good foundation of information then you are making serious error in judgment. We need more factual information on how PPT is working. Making decisions based on emotion and rhetoric is poor decision making. The facts are:

- With the oil pipeline two-thirds empty and production continuing to decline, Alaska should be focused on doing whatever is necessary to increase oil production.
- Investments, which for Prudhoe Bay alone amount to about \$1 billion yearly, are aimed at keeping the decline rate at an average of about 6

percent yearly. If the investment rate is slowed the decline rates could increase to about 15 percent yearly before too long.

As others have said, we do not know what the right number is for the tax rate. However, we do know that increased taxation will not stimulate the industry or the economy. Increased taxation on the industry will not improve the business in our campground.

We need a change the dynamics of this process from one of negatives to one of positives. In past year we have had more than enough negatives that has consumed the public process as well as diverted our energies from those long term issues that will keep our economy from disaster in next 10 years.

I would prefer to be giving testimony on a long term fiscal plan or the POMV should be structured.

What has happen to long term planning? In this time of high oil prices we have a huge opportunity to encourage small independent oil companies to flock to our state. I am sure they now have a "wait and see attitude". If you start changing the rules again it will be a long, long wait.

As I stated before that my small business needs certainty in taxation so does the oil industry.

I have seen my business take two major floods. We were able to survive however I do not think that this state can take this third flood of taxes and survive. You need to give the PPT infrastructure put in place last year a chance to work.

23 October 2007

To Members of the Senate Resources Committee:-

My name is Maynard V. Tapp, I am an Alaskan resident since 1990. I founded my company Hawk Construction Consultants, Inc. now Hawk Consultants, LLC in 1985 as an Alaskan corporation.

I strongly believe any new approach to raise taxes should be viewed as a "RESOURCE DEVELOPMENT" effort. The state will raise more tax revenues if we raise production.

If you ask any of the tax experts that will testify before your committee, none will say that increasing the tax will increase exploration and production.

The most reliable source of long-term revenue is to increase production. As I understand the state gets 75% of the 12.5% royalty (9.375%). The "fair share" to the Alaskans is the remaining (3.125%) paid into the Permanent Fund. I believe you can build a long term future for my company's employees based on the increase in production.

Hawk employs over 60 Alaskans. Much of their work is related to the reconfiguration of the Trans Alaska Pipeline, and the refurbishment and maintenance of the existing pipelines and facilities in Greater Prudhoe Bay.

Our company, its employees and the State of Alaska will greatly benefit from new production. We hope to be involved in all phases of the continuing projects.

From my point of view an increase of 2.5% in tax rates increases the size of government by \$25.0Million. One Senator made the point to me that "there is no guarantee that if the rate was reduced by 1% that the producers would invest that 1% here in Alaska". While this may or may not be true, one thing is certain that \$25.0Million will not be invested by the companies if it is taken away by increasing the tax.

What is the State of Alaska doing to increase oil production which then translates into more tax revenue?

Also, if that \$25.0Million is invested in new production, that amount is the equivalent of 3 new production wells. Those new wells at a nominal rate of 2,500bbls per day could gain the state revenue an additional \$21.0Million per year. (This would include the current PPT of 22.5% of Net plus 9.375% Royalty at \$80/bbl).

My math may not be totally correct but the case remains that the benefits from investment made by the "producers" in the state of Alaska for oil and gas field development far exceeds the benefits to Alaskans from raising an individual tax rate.

If the previous administration made a mistake, I believe your committee could rectify that mistake by dropping the tax rate to "10%/20%". That would make us more competitive at 51% which is closer to the Gulf of Mexico's 45% tax rate. I want the state of Alaska to be at the TOP of the "producers" list when it comes to selecting investment opportunities.

Please, I humbly request you reframe this bill as a Resource Development Bill and not a tax generation bill.

When all is said and done, all the experts will go away. They don't live here, their businesses does not depend on the Alaskan Oil and Gas industry. We live here and the wealth and health of the state of Alaska rest's in your hands.

I want us to recognize that Alaska is "big oil" and we get our revenues with our partners, the producers. Our fair share is calculated in the jobs created by employing Alaskans in the development of our common resource.

One other thing, thanks to all you who were here last year when the PPT was agreed. Your months of hard work resulted in the 22.5/20 agreement. Please don't try to fix that which is not broken.

Thank-you,
Maynard Tapp
200 West 34th Ave. #809
Anchorage, Alaska 99503

TOM LAKOSH P.O. BOX 100648 ANCHORAGE. AK 99510 Ph/Fax 563-7380
October 23, 2007

TESTIMONY ON SB2001 ACES

My alternative to ACES is called TRIPS, Taxes, Royalties and Infrastructure for the Petroleum Sector. There are some, albeit few, sections of ACES that would be useful but basic principles at work that require a wholesale reworking of the Bill are:

- Virtually all oil bearing structures on state lands have been explored so there's little reason to provide incentives to the industry to explore where they have already exploited everything they could. BP made this clear in their statement that 70% of their future investment would be in the greater Prudhoe area where they are obligated to wisely extract the hydrocarbons pursuant to the applicable leases and AOGCC guidelines. If producers don't provide full and efficient extraction, their leases are subject to revocation and "there's always other fish in the sea". We should not give existing producers kickbacks where they're obligated to do the job properly and within technological feasibility and economic limits under existing contracts and law. With the price of oil above \$80 there should be little left to recover in our legacy fields and we must demand heavy oil extraction now while we still have light oil to mix into TAPS shipments and the price is still high enough to warrant extraction without subsidy.
- If absolutely necessary, we can subsidize production of hydrocarbons that are difficult to develop by adjusting royalty rates instead of taxes. This would allow for lease by lease evaluation that is clearly more sensible than the broad subsidies to all operations. The royalty rates apply to gross production so the 19% range I've suggested has more than enough value available to provide incentive for development of heavy oils and remote gas should existing lessees submit, or new lessees sign on, to the new adjusted royalty rates that express the relative accessibility and marketability of specific lease types at specific distances from established infrastructure.
- The testimony clearly enforced the principle that "if you build it they will come". Angola got a \$1 billion for its leases and rabid global competition because the oil co's knew there was oil to develop. If there's oil/gas to be found, the state should find it and define the field before it puts out leases so it can garner the highest bids among many competitors. The state would also be better able to predict development, classify fields to establish proper royalty rates and determine appropriate deadlines for relinquishment. The more we improve information on prospective fields and insure access, the less we need speculators that demand high rates of return. When we eliminate the discovery and access impediments we essentially only need contractors to build the production facilities and pump the oil as regulated by ADNOR and AOGCC.
- If we have to subsidize the industry we should do it in a way that benefits other businesses and public interests. Taking money from royalties to improve transportation to the fields/pipelines floats everybody's boat. The heavy lift helicopters and low impact transport would also reduce tundra impacts, allow a longer exploration season and year round deliveries to isolated drilling/production pads. They would also be extremely effective tools for getting spill response equipment to remote sites and help repair global warming damage in remote areas that is directly caused by the oil we peddle.
- Our economic future through 40 - 60 years depends on our ability to market gas and the gas will not be marketable until the relative BTU value of gas approaches the price of oil BTUs, (PVM

said it was at 40% of oil because Northern Tier coal companies successfully marketed their coal to power plants). The relative BTU value of gas can only be increased by de-valuing coal as a power plant fuel with a federal carbon tax. The carbon tax would also likely save us as much in damages to infrastructure from global warming as we would make on oil exports, billions and billions in prevented damage that we wouldn't have to spend our revenue on to mitigate.

- Providing tax incentives to explore on federal land will mostly provide returns for the federal gov't, leaving us with enormous development bills and not much revenue to show for it.
- The least impact to exploration on federal land/OCS can be accomplished by increasing the corporate income tax on hazardous operations because an increase in state corporate tax is used as a direct offset to federal income taxes so there's no net increase in taxes on the oil co's. This tax will affect new fields and existing fields that we've been getting a raw deal on, (i.e. the 90/10 vs 50/50 split, justice w/o a court).
- If we allow the oil co's to write off their Alaskan expenses it would tend to increase the price of our hydrocarbons and make them less competitive on the open market. Taxes do have an effect on corporate behavior and only taxing the gross at the point of export or in-state delivery will serve to keep a market check on expenditures in-state and therefore keep our hydrocarbons as cheap as possible in the market. We would surely have a strong case for upholding the gross tax where it measured value IN ALASKA. Both PPT and ACES are inviting fly by night wildcatters that will sell their credits and leave. The majors will be just as susceptible to the notion that spending controls are less of a priority given that they can sell the credits for marginal projects if they fail. Why not just take the money we'd spend on credits and provide the needed oversight to exploration contractors we hire on a competitive bid?
- The whole TRIPS scheme is designed to enhance certainty of development, (pre-defined leases and improved access), while alleviating risk due to low prices but eliminating any windfalls to industry, (the progressive production tax spanning a \$190 price range). Although I haven't done a precise analysis of the total government take, I strongly suspect that these rates would keep us below the Norwegian standard of 18% up to about \$70-\$90/bbl and I would suggest lowering the base production tax and/or raising the new class of corporate income tax until this parity was reached. I'm sure that the Norwegians never anticipated the blistering oil market we have today and so did not include progressivity. The gas problem can only be rectified with a carbon tax and then all else will be controlled by the high, stable gas value generated by a proper valuation of this external cost of our hydrocarbon economy. More stringent particulate regulation would also likely help gas prices.

TRIPS beats ACES every day of the week and I would appreciate your feedback. Tom Lakosh phone 563 7380 in Anchorage

**Proposed Principles and Rates for Design of an Oil Tax Bill:
Production and Corporate Income Taxes, Royalty Rates and Lease Provisions with
State Commitments to Exploration, Infrastructure and Carbon Conservation**

Production Taxes: The gross tax on hydrocarbons produced in Alaska shall be set at the value of the hydrocarbons at the Alaskan terminus of export or point of sale within Alaska, (e.g. Valdez Marine Terminal for TAPS oil, Drift River or KPL Dock for Cook Inlet oil and gas, at the Canadian border in the case of gas transport by pipeline, at any in-state refinery or point of sale), in order to provide a market check on production costs and pipeline tariffs in furtherance of the relative competitiveness of Alaskan resources. This tax system would also encourage export of value added petrochemical and refined products. The tax rates for crude oil are as follows:

1. There shall be a minimum PT of 15% of gross value for oil prices between \$0 and \$20/bbl;
2. At \$21/bbl the PT increases to 15.5% and increases by a rate of 0.5% for each \$1/bbl increase in price to \$30 ;
3. At a price of \$31/bbl the PT shall be raised to 20.2% of gross value and shall increase at a rate of 0.2% for each \$1 in value per barrel until a price of \$110/bbl at which point the tax will have accumulated increases to provide a rate of 36% of value;
4. At a price of \$111/bbl the PT shall be assessed at 36.1% of value and shall increase at a rate of 0.2% for each \$1 in value per barrel until a price of \$210/bbl at which point the production tax will have reached its maximum rate of 46% of value.

Corporate Income Tax: A distinct class of Alaskan corporations shall include those operations that handle substantial quantities of hydrocarbons and other hazardous materials, as classified by the ADEC, and be subject to a corporate income tax of 14%. The safety and security issues presented by these operations require significant oversight, security and public safety assets that warrant an enhanced level of corporate classification in such regard.

Royalty Rates: Lease bidders will proffer a signing bonus payment and a bid above an adjustable royalty floor/minimum established between 1% for the least marketable hydrocarbon, (e.g. inaccessible, undefined gas fields), to a maximum of 20% for the highest wellhead value hydrocarbon, (e.g. well defined, light and accessible liquids such as those at Point Thompson). Each lessee shall consent to an adjustment of its royalty rate every 5 years after production startup that reflects any increase or decrease in the market valuation of the BTU content of the hydrocarbon(s) under development and/or by a substantial improvement in accessibility of leased properties as generated by state efforts. Lessees shall provide all necessary information needed to assess the relative BTU values of Alaskan hydrocarbons.

Hydrocarbon Exploration, Production and Transport Lease Provisions: All new leases shall have relinquishment provisions that reflect the realistic development timelines given the difficulty perfecting necessary permitting and development tasks. All lessees consent to regulation and assistance by the ADEC to effectively utilize and otherwise abate or sequester greenhouse gases released by exploration, production, transport, power generation and refinery operations associated with its leases. Lessees shall proportionately supply all necessary fuel for state aircraft and vehicles used to assist and administer lessees' operations.

Exploration Commitment: In order to exact the highest signing payments and royalty bids and to provide for a most efficient and predictable development of Alaska's hydrocarbon resources, the ADNR will commit to obtaining the services of exploration experts, whether contracted or employed, with the most advanced geologic mapping and analysis capability to define hydrocarbon resources to their greatest practicable extent prior to leasing of hydrocarbon fields to enhance "perspectivity".

Infrastructure Commitment: The ADOT in an MOU with DNR shall employ all due diligence in coordinating interested state and federal agencies to develop, subsidize or otherwise facilitate transportation of exploration and production materials to proposed leasing areas and for access of gas by Alaskan communities. A dedicated 4% portion of total royalty payments shall be set aside for this Safe Transport Development fund. The ADOT shall minimally provide heavy lift helicopters and other low impact vehicles to advance preservation of sensitive areas, enhance spill response, protect wildlife and maintain security in leasing areas as training for their primary public safety and security duties that shall include repair and prevention of Global Warming impacts across Alaska. The ADOT shall also advance

planning and construction of ports, port services, rail systems and pipelines necessary to promote efficient materials transport along established Alaskan transport corridors and extensions along the AGIA certified ROW(s).

Carbon Conservation Commitment: The state shall employ all due diligence with appropriate funding of legislative and regulatory efforts to establish in state and federal law establishing a transferable carbon tax and to additionally advance CO₂ sequestration and secondary utilization, methane capture and abatement, and Arctic-appropriate carbon-neutral energy generation technologies using a dedicated 4% portion of total royalty payments. The ADEC shall develop regulations establishing a carbon tax, appropriate emissions standards and/or other carbon limiting constraints upon hydrocarbon lessees. The ADEC shall conduct the necessary analyses to establish abatement technology standards and pursue advancement of the best available technologies with a bi-annual \$3 million grant funding that may accumulate beyond the \$3 million level to ensure appropriate funding of appreciably superior and effective technologies.

Sincerely Tom Latham